

Message Text

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ACTION SS-15

INFO OCT-01 ISO-00 STR-05 STRE-00 SSO-00 /021 W
-----017649 271859Z /53

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FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 4002

DEPT OF TREASURY WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 19370

USEEC

STATE FOR UNDER SECRETARY COOPER ONLY

TREASURY FOR UNDER SECRETARY SOLOMON ONLY

STATE ALSO PASS STR FOR AMBASSADOR STRAUSS ONLY

E.O. 11652: GDS

TAGS: ETRD, EEC

SUBJECT: STEEL CRISIS

1. DAVIGNON CALLED ME IN LATE DECEMBER 27 AND, REFERRING
TO HIS TELEPHONE CONVERSATION WITH SOLOMON, SAID HE HAD
PROMISED TWO THINGS:

FIRST, HE GAVE ME TWO BRIEF PARAGRAPHS IN FRENCH, WHICH
HE SAID HE WOULD USE IN DESCRIBING THE COMMUNITY PRICE
PROPOSALS TO THE CONSULTATIVE COMMITTEE OF THE COAL AND
STEEL COMMUNITY IN LUXEMBOURG TOMORROW. ANY REMARKS
HE MIGHT MAKE TO THE PRESS WOULD BE COMPATIBLE WITH
THIS STATEMENT, WHICH HE DESCRIBED AS DESIGNED TO COUNTER
ANY ALLEGATION THAT THE AMERICAN SYSTEM WAS MORE PRO-
TECTIONIST THAN THE COMMUNITY'S.

IN ROUGH TRANSLATION, THESE PARAGRAPHS READ AS FOLLOWS:

BEGIN QUOTE IN ONE OF THE CONSIDERATIONS (CITED) FOR
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THE DECISION ESTABLISHING BASE PRICES IT WILL BE
INDICATED THAT THESE PRICES HAVE BEEN ADJUSTED DOWNWARDS
IN ORDER TO PERMIT THE MAINTENANCE OF TRADITIONAL TRADE
FLOWS. IT IS THEREFORE POSSIBLE THAT THESE PRICES WILL
BE LOWER THAN THOSE WHICH WILL BE FIXED IN THE FRAMEWORK
OF UNITED STATES REFERENCE PRICES. ONE SHOULD NOT SEE
THEREIN A SUPPLEMENTARY PROTECTIONIST MEASURE IN

THE UNITED STATES.

WHAT IS SIGNIFICANT FOR TRADE IS NOT ONLY THE PRICE LEVEL
BUT THE DIFFERENCE BETWEEN THE INTERNAL PRICE AND THE
BASE PRICE OR THE REFERENCE PRICE. END QUOTE

2. SECOND, DAVIGNON SAID HE HAD PROMISED SOLOMON HIS
PRICE LIST BUT THE COMMISSION WAS ENCOUNTERING DIFFI-
CULTIES IN COMPUTING PRICES, PARTICULARLY WITH RESPECT
TO SPECIALTY STEELS, AND HE WAS NOT YET IN A POSITION TO
GIVE ME THE LIST. HE HOPED TO DO SO EARLY DECEMBER 29.
IN THE MEANTIME HE ASKED ME TO REPORT THAT ON AVERAGE THE
COMMUNITY'S BASE PRICES, WHICH IN CONCEPT
ARE SIMILAR TO OUR REFERENCE PRICES, WILL BE BETWEEN
6-1/2 AND 7 PERCENT BELOW THE COMMUNITY ORIENTATION OR
MINIMUM PRICES. WE HAVE THE COMMUNITY ORIENTATION AND
MINIMUM PRICES, BUT IN PREPARING COMMUNITY BASE PRICES
THE COMMISSION HAS ALSO HAD TO MAKE CATEGORY ADJUSTMENTS,
SINCE THE TARIFF CATEGORIES WHICH WILL BE USED FOR BASE
PRICES ARE MORE NUMEROUS THAN THE INTERNAL GUIDANCE PRICE
CATEGORIE TM ACCORDING TO DAVIGNON, ALL BASE PRICES
EXCEPT THOSE FOR REINFORCING BARS AND "TOLE FINE," I.E.,
HIGH-QUALITY PLATE, SHOULD HAVE BEEN HIGHER BUT HAVE
BEEN ADJUSTED DOWNWARDS. THE BASE PRICES FOR REBAR
AND QUALITY PLATE WILL PERHAPS BE HIGHER THAN COULD BE
STRICTLY JUSTIFIED IN TERMS OF THE COST OF PRODUCTION
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BY THE MOST EFFICIENT SUPPLIER. (COMMENT: IT CAME
OUT IN OUR DISCUSSION THAT THE COMMISSION HAS NOT HAD
ACCESS IN ANY SYSTEMATIC WAY TO COST OF PRODUCTION DATA
AND MY PERSONAL CONCLUSION, WHICH OF COURSE COULD BE
WRONG, IS THAT THE EC PRICE LIST IS BEING PUT TOGETHER
ON A GUESSWORK BASIS, PRIMARILY IN RELATION TO WHAT IS
KNOWN ABOUT PRICES WITHIN THE COMMUNITY. HOWEVER,
DAVIGNON MAINTAINS WHAT I CONSIDER TO BE A FICTION THAT
THIS IS BEING DONE IN STRICT ADHERENCE TO THE GATT ANTI-
DUMPING CODE.)

3. DAVIGNON CLEARLY ATTACHES IMPORTANCE TO THE U.S.
AND THE EC HAVING A "COHERENT" SET OF PRICES AND WHILE
OTHERWISE MOST APPRECIATIVE OF INFORMATION PROVIDED HIS
EXPERT PETERS LAST WEEK IN WASHINGTON, NEVERTHELESS
REGRETS THAT PETERS LEARNED "NOTHING" ABOUT ACTUAL U.S.
REFERENCE PRICES. WHAT EXPLICITLY BOTHERS DAVIGNON
IS THE NEED AS HE SEES IT, AFTER JANUARY 1 PUBLICATION
OF PRICE LISTS, FOR THE U.S. AND THE EC TO HAVE A FULL
EXCHANGE OF PRICE INFORMATION IN ORDER TO DEVELOP A
CONSISTENT EXPLANATION OF HOW THE PRICES WERE CALCULATED.
HE ENVISAGES THAT BOTH IN THE COMMUNITY AND IN THE U.S.

THERE WILL BE COURT CHALLENGES TO THE ANNOUNCED PRICES AND HE URGES THAT WE PUT OURSELVES IN A POSITION TO DEAL WITH SUCH COURT CHALLENGES BY ARRIVING AT A SHOULDER-TO-SHOULDER APPROACH. (COMMENT: I WOULD GUESS THAT

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C O N F I D E N T I A L SECTION 02 OF 02 BRUSSELS 19370

HE MAY BE CONCERNED OVER POSSIBLE COURT ACTIONS PARTLY AS A RESULT OF THE FACT THAT JAPANESE BALL-BEARING FIRMS HAVE TAKEN THE COMMISSION TO THE EUROPEAN COURT IN CONNECTION WITH AN EARLIER ANTI-DUMPING ACTION AGAINST THEM.)

4. FINALLY I ASKED DAVIGNON FOR HIS EXPLANATION OF THE SIGNIFICANCE OF FREEDOM FOR COMMUNITY FIRMS TO ALIGN PRICES, A POINT THAT I FIND RATHER OBSCURE. HIS EXPLANATION WAS THAT COMMUNITY FIRMS ARE BOUND TO RESPECT GUIDANCE AND MINIMUM PRICES EXCEPT WHEN AUTHORIZED TO MEET A DEMONSTRABLY LOWER COMPETITIVE PRICE. IN NEGOTIATING THE CONTEMPLATED BILATERALS THE MECHANISM, ACCORDING TO DAVIGNON, FOR GUARANTEEING THE TRADITIONAL VOLUME OF TRADE, FLOOR CONCEPT, WOULD BE THAT THE BASE PRICES TO COOPERATING EXPORTERS WOULD BE ABOUT 7 PERCENT BELOW THE INTERNAL EC ORIENTATION AND MINIMUM PRICES, BUT IN THIS CASE THE EC FIRMS WOULD NOT BE LEGALLY PERMITTED TO ALIGN ON THE PRICES OFFERED BY COOPERATING EXPORTING COUNTRIES. (COMMENT: SINCE DAVIGNON ADMITS THAT IN PRACTICE NEITHER PRODUCERS NOR TRADERS PAY MUCH ATTENTION TO THE PUBLISHED PRICES, I PERCEIVE THIS WHOLE BUSINESS IN THE COMMUNITY'S CASE TO CONTAIN A LARGE ELEMENT OF MUMBLE-JUMBLE MAKE-BELIEVE.) HINTON

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